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Inpatient Payment Method Development

Discussion with Community Hospital Task Force

February 27, 2008

Proposed Agenda

1. Methodology (including cost estimation)
2. Review baseline simulation
3. Review simulation with policy adjustors
4. Compare to policy goals
5. Next steps

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Please Bear in Mind

For purposes of discussion, this presentation includes data, examples and simulation results. The presentation is the responsibility of ACS and should not be attributed to the Community Hospital Task Force or any RI state agency.

As well, relatively small changes in our methodology can have substantial effects on the results.

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METHODOLOGY

Overview of Methodology

1. Create analytical dataset of historical data
   - Being reviewed with hospitals
2. Run baseline APR-DRG payment simulation
   - Results discussed Jan. 22
3. Estimate hospital cost for each stay
   - First discussed with hospitals Feb. 7
4. Run simulation, including estimated cost and policy adjustors
   - To be discussed today in comparison to policy goals

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METHODOLOGY

Medicaid Payment Policy Goals

- Similar pay for similar care
  - Emphasized by CHTF members
  - Selection of APR-DRG system
- Preserve access for critical Medicaid services
  - Policy adjustors can have impact
- Address provision of inpatient services on communities

Medicaid and commercial payers can learn from each other

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METHODOLOGY

Cost Estimation for Each Stay

- **Cost estimates remain subject to change**
  - Pending further analysis and discussions with CFOs
- Charges on Medicaid claims multiplied by ratios of costs to charges (RCCs)
  - 3 routine cost centers, 6 ancillary cost centers, capital
- RCCs come from 2006 Medicare reports showing charge and cost data by cost center for all patients*
- Cost of caring for Medicaid patients defined to include capital but not medical education

** 2005 for RI Rehab. Bradley does not file a cost report directly comparable to the others.*

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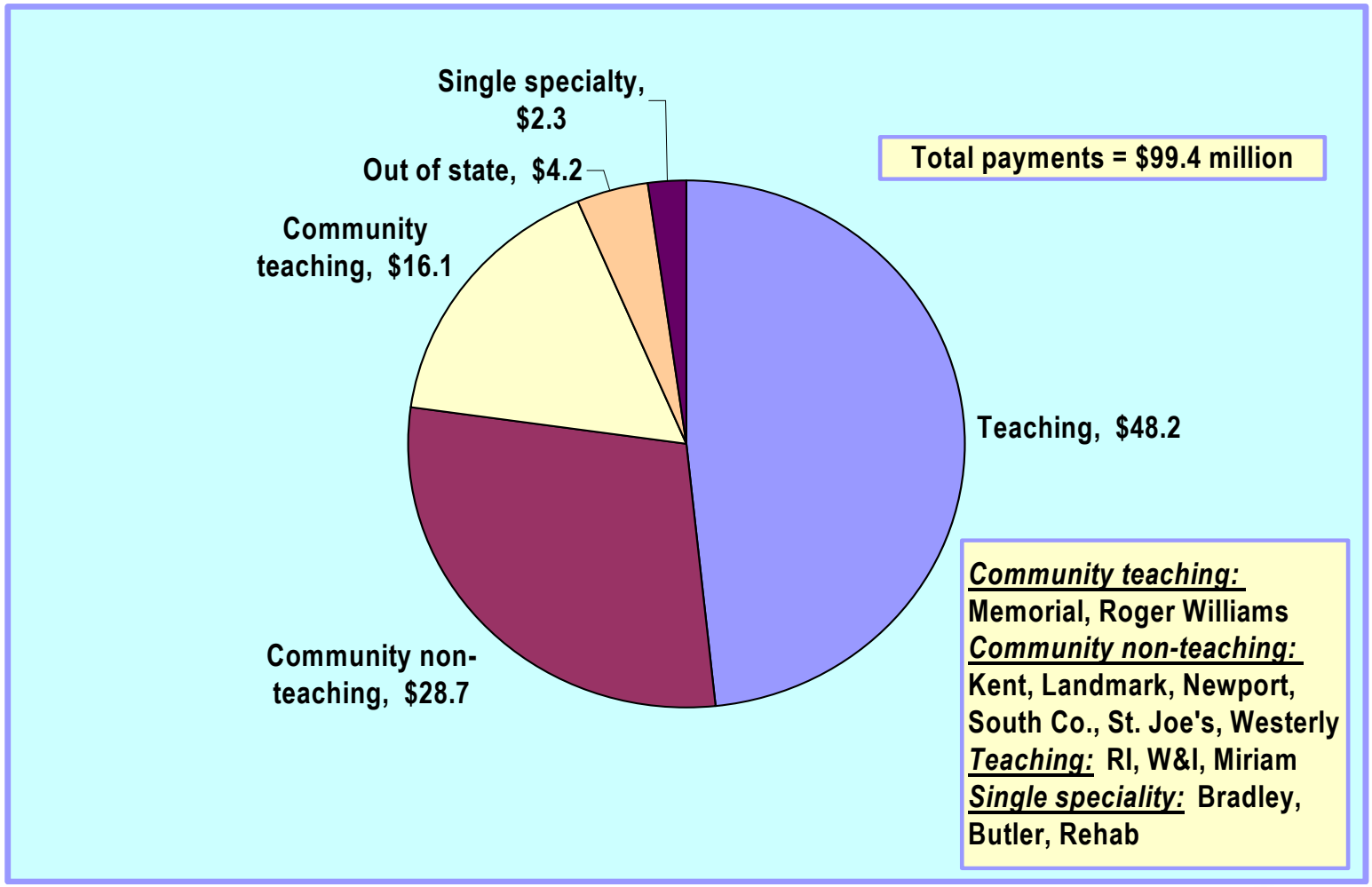
METHODOLOGY

Historical Payments by Hospital Category



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DRG SIMULATION

Simulation Details

	Baseline Simulation	Simulation with Policy Adjustors
Total stays	9,338	9,338
Baseline payments	$99.4 million	$99.4 million
Average casemix	1.00	1.00
Stays affected by pol adj	None	2,396
Policy adjustor [1]	None	1.30
Average relative weight	1.00	1.09
Base price	$10,251	$9,664
Base Payments [2]	$94.4 million	$94.4 million
Outlier payments (5%)	$4.9 million	$4.9 million
Total payments	$99.3 million	$99.2 million
Outlier model	Medicare model	Medicare model
Transfer adjustment	Yes	Yes

[1] *Applied to neonates, newborns, rehab and mental health, chosen to to preserve access to these services*

[2] *After effect of transfer adjustment*

DRG SIMULATION

Simulated DRG Payment Rates

Top 10 APR-DRGs by Total Baseline Payments								
APR-DRG		Stays		Historical Payments		Baseline Simulation Rate		Simulation with Policy Adjustors Rate
751-2	Major depressive disorders & other/unspecified psychoses	281	$	2,507,822	$	5,757	$	7,056
593-4	Neonate birthwt 750-999g w/o major procedure	7	$	2,019,083	$	157,277	$	192,752
753-2	Bipolar disorders	224	$	1,985,944	$	6,670	$	8,175
750-2	Schizophrenia	146	$	1,781,253	$	8,937	$	10,953
720-4	Septicemia & disseminated infections	45	$	1,379,907	$	31,728	$	29,911
750-1	Schizophrenia	123	$	1,323,070	$	7,726	$	9,469
593-3	Neonate birthwt 750-999g w/o major procedure	8	$	1,236,973	$	109,827	$	134,600
130-4	Respiratory system diagnosis w ventilator support 96+ hours	21	$	1,167,593	$	61,444	$	57,925
753-1	Bipolar disorders	161	$	1,138,848	$	4,713	$	5,776
751-1	Major depressive disorders & other/unspecified psychoses	132	$	1,105,198	$	3,749	$	4,595

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DRG SIMULATION

Simulated DRG Payment Rates

10 Most Common APR-DRGs								
	APR-DRG	Stays		Historical Payments		Baseline Simulation Rate		Simulation with Policy Adjustors Rate
640-1	Neonate birthwt >2499g, normal newborn or neonate w other prol	320	$	531,504	$	960	$	1,177
751-2	Major depressive disorders & other/unspecified psychoses	281	$	2,507,822	$	5,757	$	7,056
753-2	Bipolar disorders	224	$	1,985,944	$	6,670	$	8,175
753-1	Bipolar disorders	161	$	1,138,848	$	4,713	$	5,776
139-2	Other pneumonia	161	$	873,699	$	6,346	$	5,982
140-2	Chronic obstructive pulmonary disease	157	$	999,773	$	6,901	$	6,505
750-2	Schizophrenia	146	$	1,781,253	$	8,937	$	10,953
194-2	Heart failure	134	$	886,914	$	7,230	$	6,816
751-1	Major depressive disorders & other/unspecified psychoses	132	$	1,105,198	$	3,749	$	4,595
773-2	Opioid abuse & dependence	125	$	479,530	$	3,967	$	3,740

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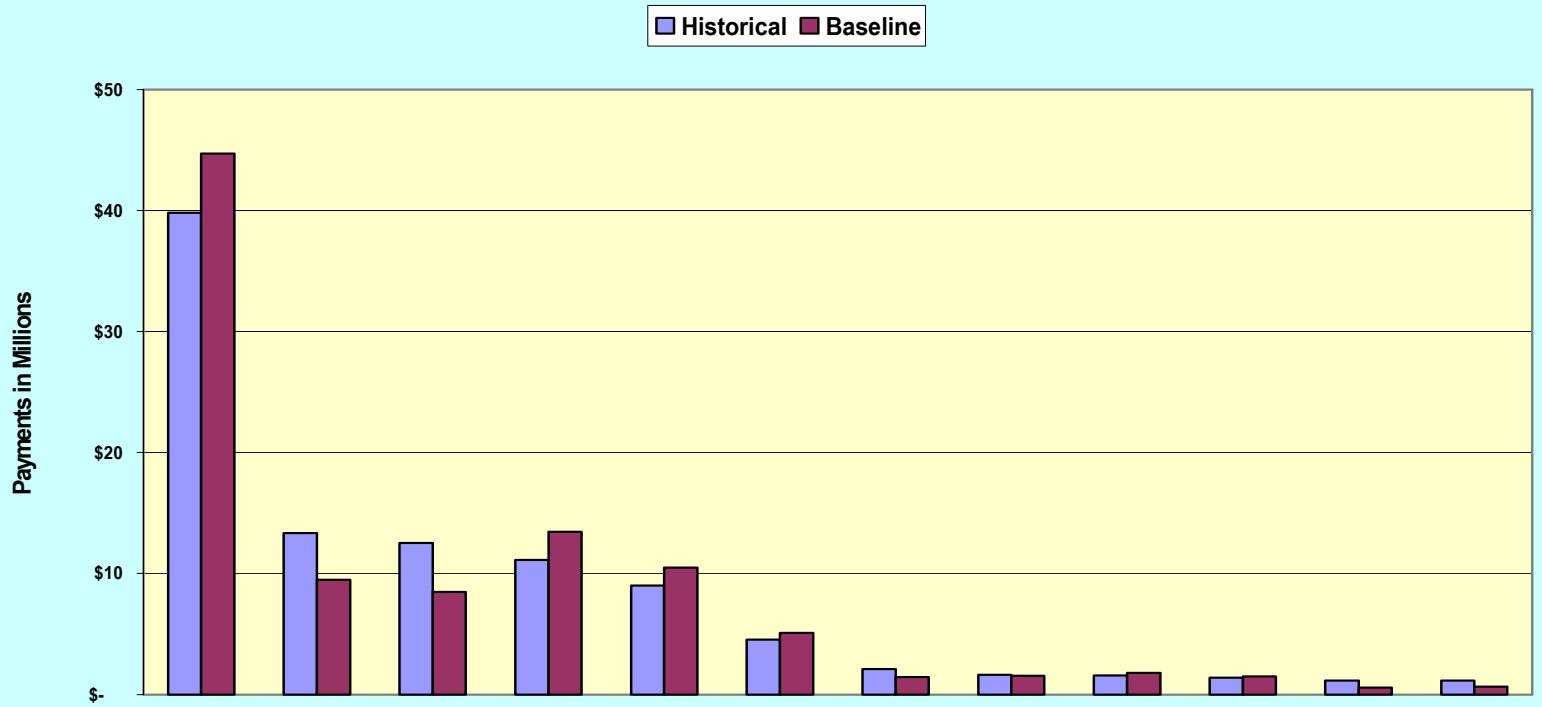
DRG SIMULATION

Baseline Simulation by Care Category



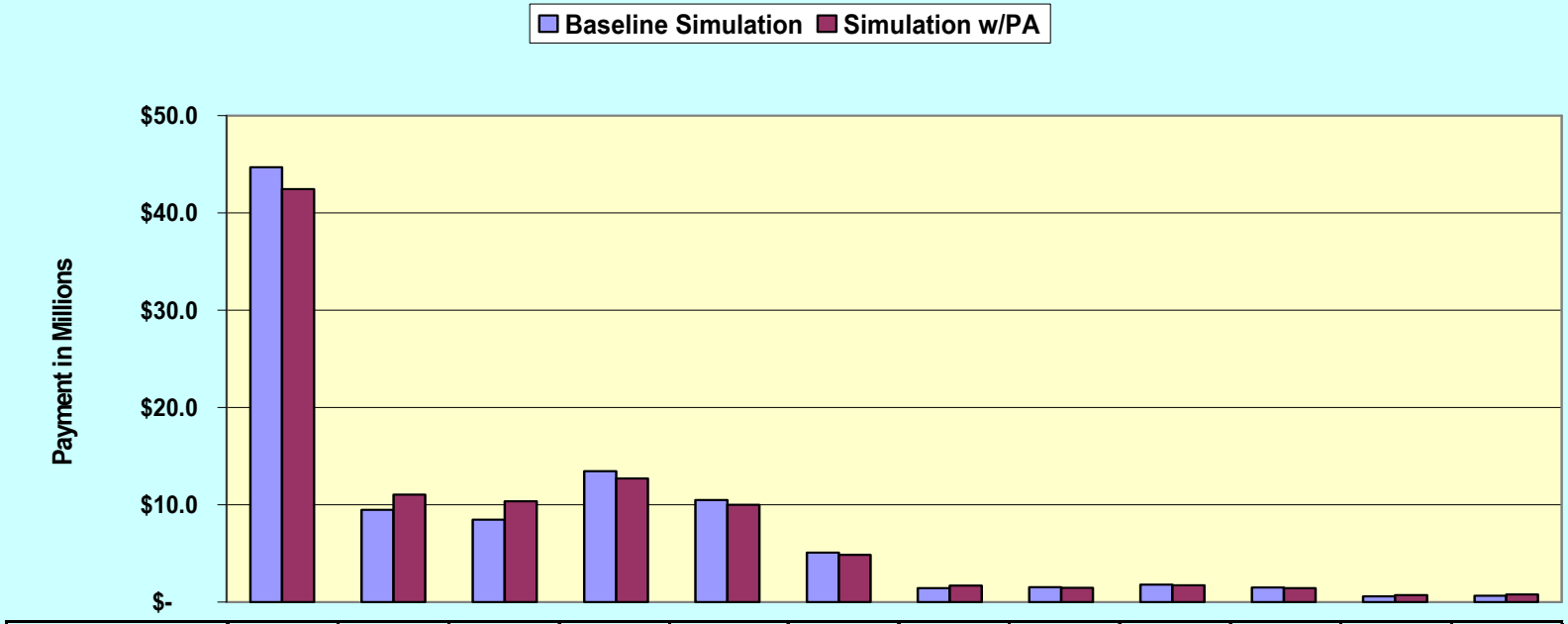
Pay-to-Cost	Adult Misc	Neonate	Adult MH	Adult Circ	Adult Resp	Pediatric Misc	Rehab	Obstetrics	Transplant	Trauma/ Burns	Normal newborn	Pediatric MH
Historical	108%	119%	123%	109%	105%	85%	96%	87%	100%	96%	107%	94%
Baseline	121%	84%	83%	131%	122%	96%	66%	83%	113%	104%	55%	54%

Total Payments = $99.4 million

DRG SIMULATION

Simulation w Policy Adjustors by Care Category

Intended to Preserve Access to Mental Health and Neonate Care

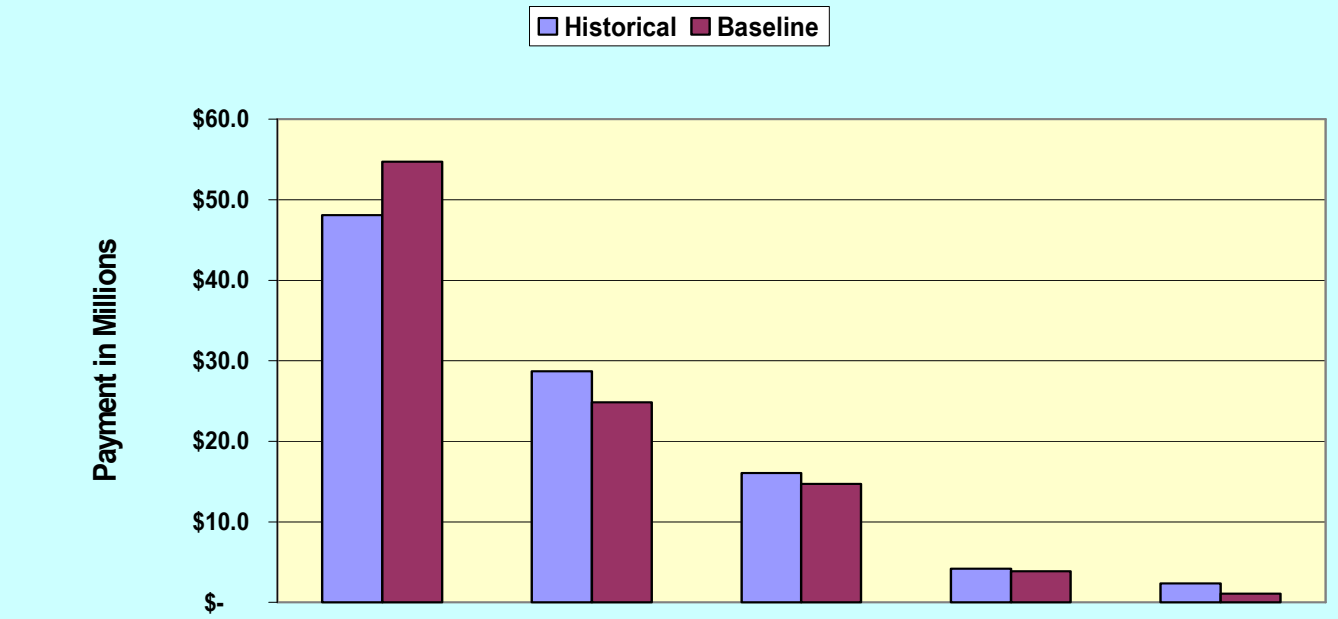


Pay to Cost	Adult Misc	Neonate	Adult MH	Adult Circ	Adult Resp	Pediatric Misc	Rehab	Obstetrics	Transplant	Trauma/ Burns	Normal newborn	Pediatric MH
Baseline Simulation	121%	84%	83%	131%	122%	96%	66%	83%	113%	104%	55%	54%
Simulation with Pol Adj	115%	98%	102%	124%	116%	91%	78%	78%	108%	100%	67%	66%

Total Payments = $99.4 million

DRG SIMULATION

Baseline Simulation by Hospital Category

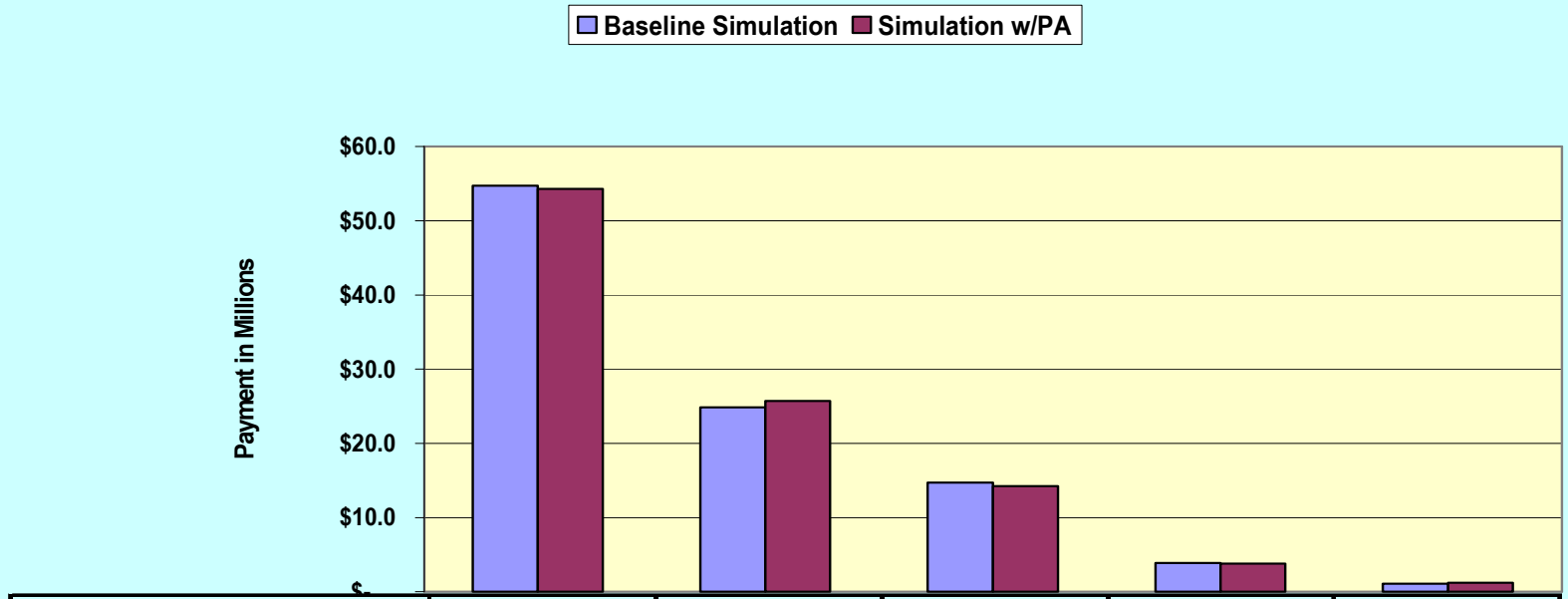


Pay-to-Cost	Teaching	Community Non-Teaching	Community Teaching	Out of State	Single-Specialty
Historical	97%	117%	141%	92%	119%
Baseline	110%	101%	129%	85%	56%

Total Payments = $99.4 million

DRG SIMULATION

Simulation w Policy Adjustors by Hospital Cat.



Pay to Cost	Teaching	Community Non-Teaching	Community Teaching	Out of State	Single Specialty
Baseline Simulation	110%	101%	129%	85%	56%
Simulation with Pol Adj	109%	105%	125%	83%	62%

Total Payments = $99.4 million

NEXT STEPS

Comparison with Policy Goals

- Similar pay for similar care
- Preserve access for critical Medicaid services
- Address provision of inpatient services for communities
- Fairness and consistency among payers

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NEXT STEPS

Suggested Next Steps

- Continue to refine analytical dataset in consultation with hospitals
- Form internal Medicaid work group to develop detailed design document (DDD)
- Set schedule for open advisory group meetings

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NEXT STEPS

Key Payment Policies in DDD

Policies to be reflected in the detailed design document

- Policy adjustors and similar provisions for access
- Outlier policy – cost/day, high/low, threshold, payment %
- Adjustments for transfers and prorated eligibility
- Changes in billing instructions
- Changes in MMIS edits and post-payment review
- Documentation and coding adjustment
- Outpatient “window” of related services
- Possible payment for interim claims

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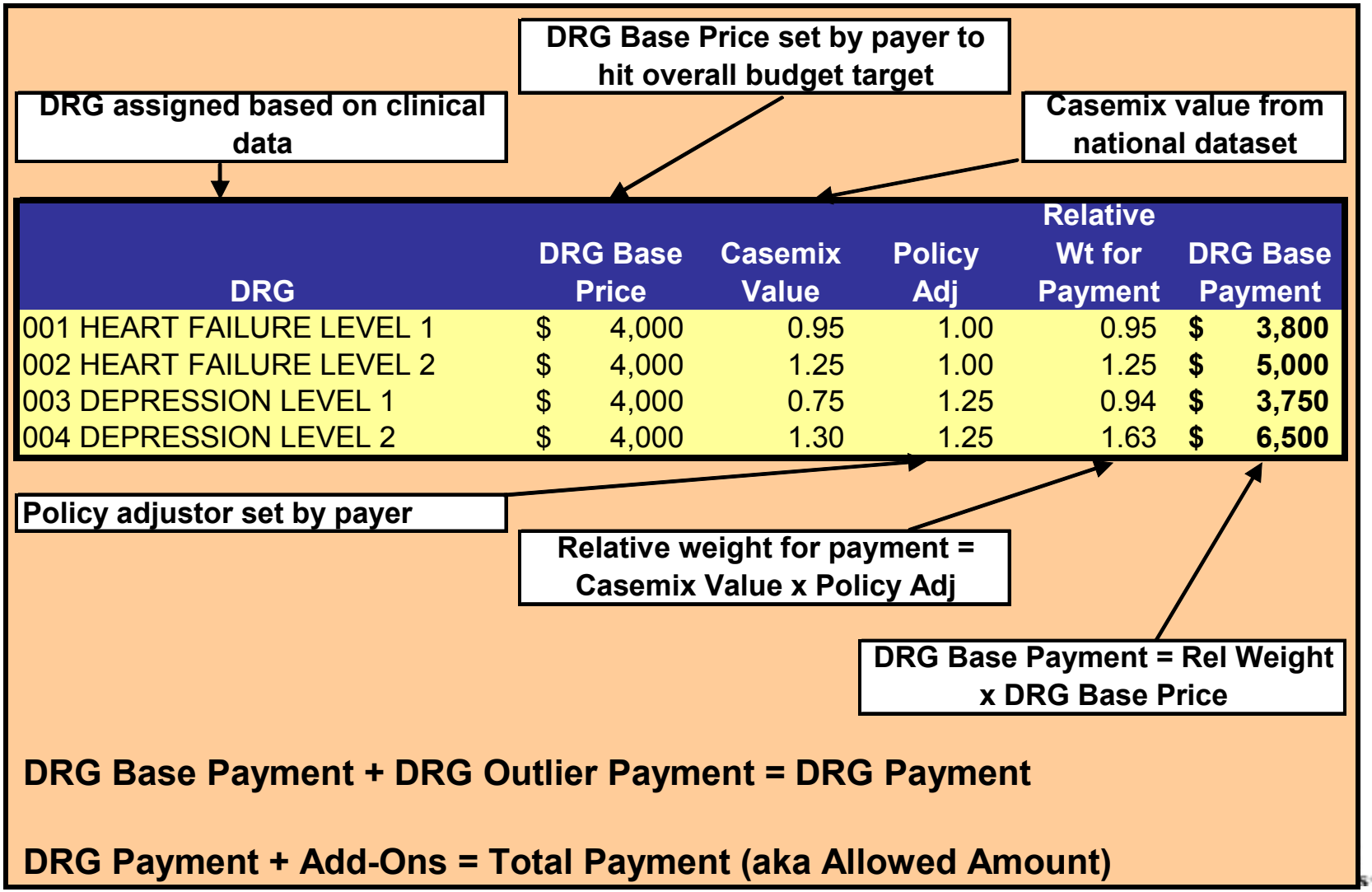
APPENDIX

Mechanics of DRG Calculations



DRG	DRG Base Price	Casemix Value	Policy Adj	Relative Wt for Payment	DRG Base Payment
001 HEART FAILURE LEVEL 1	$ 4,000	0.95	1.00	0.95	**$ 3,800**
002 HEART FAILURE LEVEL 2	$ 4,000	1.25	1.00	1.25	**$ 5,000**
003 DEPRESSION LEVEL 1	$ 4,000	0.75	1.25	0.94	**$ 3,750**
004 DEPRESSION LEVEL 2	$ 4,000	1.30	1.25	1.63	**$ 6,500**

DRG Base Payment + DRG Outlier Payment = DRG Payment

DRG Payment + Add-Ons = Total Payment (aka Allowed Amount)

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